

CENTRAL INTELLIGENCE GROUP
INFORMATION REPORT

NO. OF PAGES 8

NO. OF ENCLS.
(LISTED BELOW)

**SUPPLEMENT TO
REPORT NO.
PRELIMINARY**

THIS DOCUMENT CONTAINS INFORMATION AFFECTING THE NATIONAL DEFENSE OF THE UNITED STATES WITHIN THE MEANING OF THE ESPIONAGE ACT, 50 USC 3161, AS AMENDED. ITS TRANSMISSION OR THE REVELATION OF ITS CONTENTS IN ANY MANNER TO AN UNAUTHORIZED PERSON IS PROHIBITED BY LAW. IT MAY NOT BE REPRODUCED OR TRANSMITTED IN ANY FORM OR BY ANY MEANS, ELECTRONIC OR MECHANICAL, INCLUDING PHOTOCOPYING, RECORDING, OR BY ANY INFORMATION STORAGE AND RETRIEVAL SYSTEM, WITHOUT PERMISSION OF THE DIRECTOR OF CENTRAL INTELLIGENCE.

PPR's Economic Dictatorship

1. The PPR, having failed to convert the masses politically, is planning to dominate them economically. The method it has adopted to achieve this economic dictatorship is similar to that it employed politically: a slow, unobtrusive transformation of the existing system so that the people will be scarcely aware of any change, and therefore cannot oppose it. The PPR plans to develop its own economic doctrines of nationalization and collectivization, at the same time breaking Spolem, the PPS' economic backbone.
2. The Party weapons in PPR's struggle for economic dictatorship are its BP (Politburo) and KC (Central Committee). PPR's Government weapon is the Ministry of Industry and Trade, headed by Hilary Minc, a PPR leader. Minc is particularly powerful because, as Minister of Industry and Trade, he not only directs national economy but controls the other economic ministries of Finance, Reconstruction, Agriculture, and Supply.
3. Economic policies are formulated by Minc. They are then discussed in the BP PPR, sent to the USSR for concurrence, and finally promulgated as Polish national policies.
4. The KC PPR plays an advisory planning role in Poland's economy. It has special branches which analyze agricultural and industrial problems to supply pertinent statistical data to the BP. Analyses are based on a variety of incoming reports which are not available to other political parties or even to such Government agencies as the CUP (Central Planning Office) and the NIK (Chief Control Office).
5. The CUP is being superseded in its authority by the KC which checks and controls all its planning. Minister Minc is also stripping the CUP of power by gradually assuming the functions of many CUP sections. The CUP nominally deals with the following phases of national economy in the manner noted:
 - (a) Production: Prepares production plans for industry, agriculture, transportation, and reconstruction.
 - (b) Power: Investigates potential sources of power and formulates plans for exploiting them.

[illegible]

REFERENCE CENTER LIBRARY

CONFIDENTIAL

-2-

25X1

- (c) Investments: Plans and controls public investment in housing projects, industries, etc.
- (d) Consumption and Distribution: Prepares and recommends plans for the regulation of foreign and domestic trade.
- (e) Cultural and Educational: Suggests methods for reconstructing the nation's social life.
- (f) National Defense: Co-ordinates economic measures with national defense plans.
- (g) Statistical: Analyzes reports and compiles statistics on all phases of national economy.

Agriculture

6. The BP PPR has adopted an oppressive agrarian policy which is designed to ruin the peasants and compel them to dispose of their land. Land would then go to the State forcing the peasants into the "kolkhoz". Farmers, already impoverished by a 100% increase in taxation over 1946, were recently ordered by the Minister of Agriculture to pay sowing credits. The Ministry's previous policy had been to write off sowing credits, treating them as non-returnable financial aid to war-damaged farms. The reversal of policy is a further manifestation of the BP's determination to force collectivization on the peasants.
7. In 1946 treasury receipts from real estate taxes totaled 12 billion zlotys and constituted the main source of funds for village and county self-governments. The State's portion of these 1946 receipts was paid into the KFPZ (Komunalny Fundusz Pożyczkowo-Zapomogowy -- Communal Credit-Help Fund), a fund created to fill gaps in self-government budgets.
8. A Government decree dated 2 Apr 47 reapportioned the revenues received from real estate taxes and directed the following distribution:

State.....	25%
County Self-Government.....	25%
Provincial Self-Government.....	2%
Communes.....	25%
KFPZ.....	20%
ZSCn(Peasant Self-Help Union).....	3%

Based on an estimated State share of six billion zlotys, total real estate tax receipts for 1947 should reach 24 billion zlotys.
9. Eventual establishment of the proposed State agency to buy all grain would supplement heavy taxation as a means for forcing farmers into collectivism. Also contributing to the PPR's planned demoralization of farm life is the deportation of Polish farmers from the east to Soviet-devastated farms in the west. Transferred peasants are starving on their new, unproductive farms.
10. Fifteen men, mostly ZWM (Association of Fighting Youth) members, recently left Zabkowice to attend an agricultural course in Poznan. Upon completion of their training, the men will replace reactionary elements in agrarian offices.
11. Many large estates in Poland will probably become "kolknozy" immediately instead of being divided into smaller holdings.
12. During the latter half of May 1947, Soviet authorities made a grain-buying tour throughout Poland, particularly in the eastern provinces of Lublin, Kielce, Bialystok, and Warsaw. Purchases were paid for in counterfeit zlotys, or, as occurred in Plonsk, were not paid for at all. In Lublin Province alone 20 million of these spurious zlotys have already been questioned. Many peasants sold their entire grain crop and now must buy bread. The Polish Government has tried to persuade the people that the grain-buyers were UPA (Ukrainian Partisan Army) men in Soviet uniforms.

CONFIDENTIAL

CONFIDENTIAL

-8-

-25X1

Industrial Planning and Administration

13. The BP PPR proposes to socialize industry through a program of planned economy. It believes that industrial planning is the only way to increase production, eliminate unemployment and overproduction, and save the workers' class from pauperization and the nation from economic collapse. To implement this program, the BP has followed the Soviets' example by placing planning groups in every industrial establishment. Administratively, these groups are integral parts of the establishments in which they operate; from a policy standpoint, however, they are organic parts of the CUP.
14. Production quotas ostensibly are fixed by the CUP and the BP. They are based on the CUP's analysis of daily reports submitted by PPR shop committees in mines, foundries, factories, etc. The CUP's recommendations, however, must be approved by special branches of the KC, and the BP's ultimate decisions regarding production quotas are in turn influenced by USSR directives.
15. Production figures are always exaggerated. This factor, combined with the planners' failure to consider the normal wear and tear of equipment, leads to the formulation of unattainable production quotas. Industry's greatest need is the repair or replacement of old machinery and equipment. Minister Minc has acknowledged this need. The Three Year Plan is based, to a great extent, on a program of increased import which is expected to provide necessary machinery. Imports cannot be increased, however, without a corresponding augmentation of exports. As any stepping-up of exports presupposes a reduction in domestic consumption, the BP is trying to acclimate the people to lowered living standards. BP propaganda cites the necessity for self-denial during the operative period of the Three Year Plan, but promises the planned scarcities of today will give way to the permanent abundances of tomorrow. It further contends that current hardships will serve as a national purge, removing the weak, undesirable elements of the population and leaving a strong, select nucleus for a regenerated Poland.
16. Industrial phases of the Three Year Plan are designed to conform with Soviet plans for war production. The USSR has issued directives for speeding Polish production of airplanes, tractors, railroad cars, and locomotives.
17. Fifty percent of all industrial output in Poland comes from the 3,575 State-operated establishments which employ more than a million workers. State industries are administered by 14 central agencies which, in turn, comprise 150 associations organized according to types of work. The State industrial trust also administers many flour mills, sugar factories, alcohol plants, etc. which were supposed to become co-operatives.
18. Graft and diversion of funds are common in all echelons of industrial administration. Funds allotted to industrial associations for investments or repairs are frequently used for Party or UB needs or diverted to Vice-Minister Szyr's personal account. Aaron Kirichenbaum, head of a Lomica garment factory's personnel department, submitted false overtime reports and then kept two-thirds of the resultant pay. Though arrested, he was released immediately because he was a PPR member.
19. The secrecy in which the Ministry of Industry and Trade shrouds its operations provides excellent cover for irregular financial practices. A very limited number of trusted employees have access to contracts, bills, and records of the Ministry's transactions. In January 1947, 123 Ministry employees were discharged because they were considered unsympathetic toward administrative graft. Forty more "dissenters" were discharged after the last elections, and another 30 in May. During the first five months of 1947, the Ministry of Industry and Trade received revenues totaling 28 billion zlotys, of which only seven billion zlotys reached the treasury. Following are two typical instances of diversion of public funds:

(a) [redacted] received 150 million zlotys [redacted] 25X1

(b) On 25 May 47 the UB received 750 million zlotys.

These and similar transactions are made by Vice-Minister Szyr with Minister Minc's authorization. Szyr also finances several propaganda publications and a part of the Government press.

CONFIDENTIAL

CONFIDENTIAL

-4-

25X1

Coal Industry

20. In 1946 the Polish coal industry had a 500 million zlotys deficit. The first five months of 1947 have shown a 750 million zlotys deficit. These deficits occurred because:

- (a) Unsatisfactory working conditions and inferior equipment caused a drop in production.
- (b) The USSR buys 50% of all the coal mined, paying 70 zlotys per ton for coal which costs 1,000 zlotys per ton to extract.
- (c) Domestic coal consumption has increased. Yearly allowances for railroad workers, for example, have risen from 431,646 to 1,611,518 tons.

Steel Industry

21. Poland's steel potential has been increased by acquisition of the Regained Territories' deposits of coal, iron ore, ceramics, and fusible materials. The following factors, however, have prevented full development of this potential:

- (a) Many foundries and factories were heavily damaged during the war, with rolling mills suffering most. Eight foundries were completely demolished. Total war damage to steel plants and equipment approximates 800 million prewar zlotys.
- (b) Lack of capital prevents repair to damaged installations, modernization of equipment, and hiring of adequate personnel.
- (c) Some of the best German-equipped metallurgical installations have been dismantled by the Soviets.
- (d) Foundries, initially adapted to processing Soviet ore, had to be reconverted for ore when deliveries from the USSR did not materialize.
- (e) Ore, scrap, and pig iron are not received in sufficient quantities to maintain the steel industry at full productive capacity. Polish ore and scrap supply only 30% of the industry's total requirements. Although large quantities of tanks, artillery, and other military equipment are collected, Poland is not permitted to use this excellent scrap material. Everything of this type found on Polish territory is regarded by the USSR as Soviet property and must be shipped to them at the Polish Government's expense.

25X1

22. The PPR considers steel second only to coal as a keystone of Polish economy. The Three Year Plan therefore accords special attention to improvement and expansion in all phases of Poland's steel industry. The Plan's schedule of expenditures to achieve the desired expansion is as follows: (Figures are expressed in millions of prewar zlotys.)

<u>Year</u>	<u>Domestic</u>	<u>Foreign</u>	<u>Total</u>
1946	33	12	45
1947	117	43	160
1948	135	40	175
1949	<u>44</u>	<u>26</u>	<u>70</u>
Grand Totals	329	121	450

The above figures do not include investments such as the proposed construction of 37 thousand workers' housing units at a cost of 190 million zlotys.

23. The Three Year Plan expenditures will be apportioned among the various branches of the steel industry in the following ratio:

Metallurgical Establishments.....	65%
Manufacturing Establishments.....	17%
Power Plants.....	10%
Auxiliary Plants.....	6%
Miscellaneous.....	2%

There will be further apportionment of funds according to area. Half of all planned expenditures, for example, will be made in constructing four foundries in Silesia.

CONFIDENTIAL

CONFIDENTIAL

-5-

25X1

Priority will be given also to reconstructing the Kielce-Czestochowa region which possesses iron ore, natural gas, and hydroelectric power. As the area has no coal deposits, however, its steel industry will not employ blast furnaces.

24. Among the specific investments mentioned in the Three Year Plan are the following:
- (a) Construction of a large steel plant on the Kłodnica canal. It will have a productive capacity of one million tons of crude steel per year, and will include a foundry incorporating the whole production cycle.
 - (b) Construction of a new cokery with an annual output of 300 thousand tons. Two old cokeries will be scrapped.
 - (c) Construction of two modern blast furnaces, each capable of producing 600 tons per day.
 - (d) Reconstruction and completion of six Martin furnaces and four mixers.
 - (e) Modernization of 30 rolling mills by expansion of heating equipment, finishing shops, electrical facilities, and mechanical furnishings. These improvements, plus reconstruction of damaged rolling mills, are expected to increase yearly production by 740 thousand tons.
 - (f) Construction of eight modern rolling mills with a combined productive capacity of 315 thousand tons per year.
 - (g) Installation of approximately 1400 lathes and machine tools in manufacturing shops.
25. The following table shows the increase in Poland's steel production expected as a result of Three Year Plan expenditures. Figures represent thousands of tons.

	<u>Present Yearly Capacity</u>	<u>Planned Yearly Capacity</u>
Coke	1,100	1,160
Pig Iron	850	1,300
Crude Steel	1,500	2,000
Rolled and Seamless Pipes	835	1,500
Wrought Steel	16	50
Cast Steel	30	40
Mechanical Shops	18	40
Cast Iron Pipes	40	90
Wheel-set Plants	15	48
Construction Shops	15	75
Sheet Metal Construction	15	35
Various Manufactures	26	42

26. By the end of 1949 rolling mills are expected to have the following yearly production capacities:

	<u>Thousands Of Tons</u>
Rails, Ties, Girders, and other Heavy Profiles	420
Rods	510
Steel Tape	97
Wire	210
Steel of all purposes	44
Heavy Steel Sheet	132
Medium Steel Sheet	32
Light Steel Sheet	234
Seamless Pipes	109
Railroad Car Wheels and Rims	107

27. The Commission for Expansion and Efficiency of the Metallurgical Industry has made a study of industrial methods employed in the USSR, 25X1
- Approximately 60 eminent specialists are co-operating with the Commission in analyzing reports and preparing recommendations for the implementation of the Three Year Plan as related to Poland's steel industry.

CONFIDENTIAL

CONFIDENTIAL

-6-

25X1

Industry in the Nowy Sacz District

29. The Nowy Sacz district has the following major industries:

- (a) The PKP's (Polish National Railroads) main shops for repairing railroad cars and locomotives. Its employees, numbering approximately 2,000, are members of the PPS and the railroad ZZ (Trade Union), both very strong and active in the district. Shops are not operating at full scale because of lack of equipment. All equipment was moved to Stanislawow in 1939 and never returned. The Germans re-equipped the shops during their occupation but removed everything before evacuating the area. Some new furnishings brought from [] Germany are not adequate for full production. 25X1
- (b) A power plant in Roznow. Plant employees are not organized politically but belong to an active building workers' ZZ.
- (c) The State watering resort in Krynica. Workers at the spa are strongly PPS and are members of the ZZ of the health services.
- (d) A brickworks in Bieganice. Its 150 workers are non-partisan but are members of the builders' ZZ. Fifty percent of the tiles and bricks produced by the plant go to the Reconstruction Committee; the balance is sold to private customers.

Private Industry and Handicrafts

30. The Ministry of Industry and Trade's registration cards for 1947 show the following break down of private industries:

<u>Type of Industry</u>	<u>Total Number of Establishments</u>	<u>Total Number of Workers Employed</u>
Mining	57	600
Minerals	450	2800
Metal	431	8600
Electrotechnical	56	500
Optical-Precision	26	300
Chemical	799	5600
Textile	761	6000
Paper	203	3000
Polygraphic	156	2000
Leather	53	700
Timber	778	9000
Musical Instruments, Toys	61	600
Food	6587	26000
Building	1001	17000
Other	<u>216</u>	<u>3300</u>
Total	11,635	86,000

31. Privately owned textile factories operate a total of 4,085 machines of various types. These include 600 hand-driven and 560 power-driven stocking machines, 390 winding machines, and 350 plaiting machines. Approximately 900 tons of yarn are needed to sustain full production over a three-months period. This total requirement is divided as follows:

CONFIDENTIAL

CONFIDENTIAL

-7-

25X1

<u>Material</u>	<u>Tons Required</u>
Cotton	375
Rayon	243
Combed Wool	150
Other	132
Total	900

Private operators, however suffer from the general raw materials shortage and do not maintain a full production schedule. In the Lodz area, for example, where 83% of the private textile factories are concentrated under the Lodz Chamber of Commerce, only 61% of raw materials requirements are supplied. Weavers in the area are producing at 40% of their full capacity; other types of factories, at 70%.

32. Privately owned chemical plants in the Lodz district operate as follows:

<u>Product</u>	<u>Percentage of Production Capacity Attained</u>
Cosmetics	40 - 50
Laundry Soap	35 - 40
Shoe Paste	20
Miscellaneous	30 - 40

33. Inadequate deliveries of coal and coal dust may force limekilns and brickworks in the Lodz area to shut down. Deliveries are only 25% of demands.

34. Partial responsibility for the difficulties confronting private industry can be placed upon the Government. The State controls the supply of raw materials and can immobilize any factory merely by stopping delivery. Under Minister Vinc's guidance, an apparent effort has been launched to force private operators into guild membership, make them sell their products through co-operatives, and perhaps eventually seize their business establishments entirely. The Handicraft Chambers have created a Handicraft Center for Supply and Sales which is to function as a central distribution agency for both raw materials and finished products. Each of its co-operatives is to have a capital of one million zlotys. Producers are fighting the project.

Trade

35. The PPR regards trade as the "hub in which its greatest enemies are concentrated." The main attack in its battle for sovietization is therefore directed against trade - both private and co-operative. Spolem is a specific target because it is controlled by the PPS. PPS' opposition has been instrumental in thwarting the PPR's efforts to eliminate co-operatives and seize trade. As seizure of trade is a prerequisite to victory in the PPR's struggle to sovietize the village sectors, the "finishing attack on the countryside" is unlikely to occur for some time.

36. In spite of the "industry for farms" movement, the countryside has not become an important consumer of goods. This is particularly true of steel products. The PCH (State Trade Center) and the ZSCH (Peasant Self Help Union) are responsible for the distribution of hardware in the villages, but find few customers because of prohibitive production and distribution costs.

37. Pressure and discrimination against private initiative are especially strong in the Recovered Territories. Spolem and the PCH sell goods to ZSCH co-operatives at higher discounts than those permitted private customers. Private enterprises also pay a higher turnover tax than the co-operatives. PCH can raise its prices at will, but private merchants must sell their goods at cost plus a specified profit. Price violations are detected easily because the merchants' invoices and records must be open for inspection.

38. Production for the Carpathian Mountains area is so poorly planned that even the limited quantities of goods made available are usually offered out of season. Cement, lime, steel sheeting, timber, and other building materials are unobtainable, as are scythes and similar agricultural implements.

39. There are 16 registered coal firms in Krakow receiving allotments from the Coal Distribution Center which has been controlling distribution of all coal since November 1946.

CONFIDENTIAL

CONFIDENTIAL

-8-

25X1

40. The price of grain in the Nowy Sacz district probably will rise immeasurably as a result of the recent decree ordering farmers to release their grain to the State-controlled centers. The district is mountainous and has never been self-sustaining. Any attempt by the inhabitants to replace their meager food supply by importing grain from other districts will be treated as a contravention of law by the watchful UB.

Finance

41. Printing of money has declined. Even Minister Minc calls indiscriminate printing of money "uneconomical." He states further that Polish currency has increased in strength, with all periodic breaks in value being quickly controlled by the Government. When repatriation is complete and savings have been returned to Poland, there will be stricter legislation regarding foreign money. Possession of foreign money will probably become illegal, forcing holders to declare any personal accumulations.

-end-

CONFIDENTIAL